

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2011

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
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NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Tim Drewelow	Board President	2013
Duane Stonerook	Board Member	2012
Jane Malaby	Board Member	2012
Brent Montz	Board Member	2013
Tessa Holst	Board Member	2013
School Officials		
John Dayton	Superintendent	2011
Jean Esbaum	District Secretary	Indefinite
Brian Gruhn	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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563-264-1385

Independent Auditor's Report

To the Board of Education
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of North Cedar Community School District, Clarence, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

The financial statements of the North Cedar Community School District Foundation have not been audited, and I was not engaged to audit the Foundation financial statements as part of my audit of the North Cedar Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

Because the Foundation's financial statements have not been audited, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit of the North Cedar Community School District, as of and for the year ended June 30, 2011.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of North Cedar Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 20, 2012 on my consideration of North Cedar Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 49 through 51 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Cedar Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing in Schedule 4, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 20, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Cedar Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,389,128 in fiscal 2010 to \$9,098,712 in fiscal 2011, and General Fund expenditures increased from \$8,717,419, in fiscal 2010 to \$8,786,753 in fiscal 2011. The District's General Fund balance increased from \$1,413,936 in fiscal 2010 to \$1,705,895 in fiscal 2011, a 21% increase.
- The increase in General Fund revenues was attributable to an increase in state aid, local, tuition and other revenue in fiscal 2011. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, building repair, utilities, vehicle fuel, and substitute teacher expense.
- The increase in General Fund interest earnings resulted from cash flow allowing for additional funds to be invested for longer periods of time. Comparison information from the last four years is shown below.

2008 \$62,784	2009 \$25,836	2010 \$8,590	2011 \$13,950
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USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of North Cedar Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Cedar Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Cedar Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

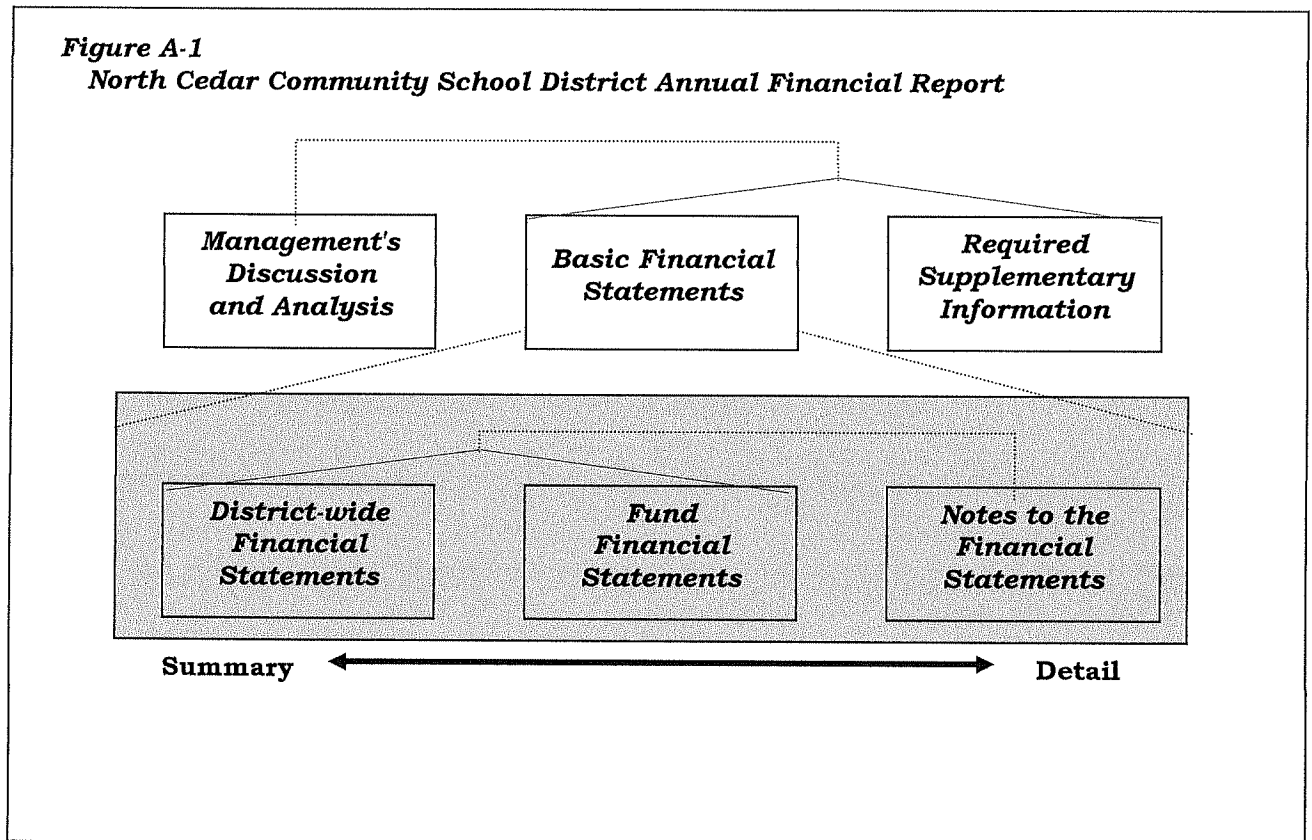


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and partially self-funded health insurance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into three categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.
- *Component Unit*: This includes the activities of the North Cedar Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. Internal service funds, the other type of

proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund, the employee benefit fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of the private-purpose trust fund.

Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Current and other assets	\$ 9,365,577	\$ 8,364,035	\$ 11,527	\$ 7,188	\$ 9,377,104	\$ 8,371,223	12.02%
Capital assets	<u>11,561,216</u>	<u>11,812,195</u>	<u>49,494</u>	<u>56,454</u>	<u>11,610,710</u>	<u>11,868,649</u>	-2.17%
Total assets	<u>20,926,793</u>	<u>20,176,230</u>	<u>61,021</u>	<u>63,642</u>	<u>20,987,814</u>	<u>20,239,872</u>	3.70%
Long-term liabilities	8,457,995	8,957,498	-	-	8,457,995	8,957,498	-5.58%
Other liabilities	<u>4,688,706</u>	<u>4,455,861</u>	<u>5,582</u>	<u>6,810</u>	<u>4,694,288</u>	<u>4,462,671</u>	5.19%
Total liabilities	<u>13,146,701</u>	<u>13,413,359</u>	<u>5,582</u>	<u>6,810</u>	<u>13,152,283</u>	<u>13,420,169</u>	-2.00%
Net assets							
Invested in capital assets, net of related debt	3,471,216	3,132,195	49,494	56,454	3,520,710	3,188,649	10.41%
Restricted	2,074,729	1,573,330	-	-	2,074,729	1,573,330	31.87%
Unrestricted	<u>2,234,147</u>	<u>2,057,346</u>	<u>5,945</u>	<u>378</u>	<u>2,240,092</u>	<u>2,057,724</u>	8.86%
Total net assets	<u>\$ 7,780,092</u>	<u>\$ 6,762,871</u>	<u>\$ 55,439</u>	<u>\$ 56,832</u>	<u>\$ 7,835,531</u>	<u>\$ 6,819,703</u>	14.90%

The District's combined net assets increased by approximately 15%, or \$1,015,828, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$501,399, or approximately 32% from the prior year. The District's restricted net assets increased due to changes outside the control of the district in program revenues, expense, and related debt.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$182,368, or approximately 9%. This increase in unrestricted net assets was a result of administration keeping a watchful eye on daily expenditures.

Figure A-4 shows the change in net assets for the years ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4

	Change in Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Revenues							
Program revenues							
Charges for service	\$ 369,505	\$ 427,625	\$ 231,417	\$ 247,579	\$ 600,922	\$ 675,204	-11.00%
Operating grants	1,827,443	1,752,266	190,590	186,366	2,018,033	1,938,632	4.10%
General revenues							
Property tax	4,434,149	4,255,719	-	-	4,434,149	4,255,719	4.19%
Statewide sales, services and use tax	617,621	576,640	-	-	617,621	576,640	7.11%
Unrestricted state grants	3,779,920	3,187,398	-	-	3,779,920	3,187,398	18.59%
Unrestricted investment earnings	4,878	10,022	1,183	43	6,061	10,065	-39.78%
Contributions and donations	21,173	2,327	-	-	21,173	2,327	809.88%
Other	<u>51,070</u>	<u>41,882</u>	<u>-</u>	<u>-</u>	<u>51,070</u>	<u>41,882</u>	21.94%
Total revenues	<u>11,105,759</u>	<u>10,253,879</u>	<u>423,190</u>	<u>433,988</u>	<u>11,528,949</u>	<u>10,687,867</u>	7.87%
Program expenses							
Governmental activities							
Instruction	6,472,903	6,131,424	-	-	6,472,903	6,131,424	5.57%
Support services	2,529,374	2,633,669	-	-	2,529,374	2,633,669	-3.96%
Non-instructional programs	347	347	444,583	444,997	444,930	445,344	-0.09%
Other expenses	<u>1,065,914</u>	<u>1,218,445</u>	<u>-</u>	<u>-</u>	<u>1,065,914</u>	<u>1,218,445</u>	-12.52%
Total expenses	<u>10,068,538</u>	<u>9,983,885</u>	<u>444,583</u>	<u>444,997</u>	<u>10,513,121</u>	<u>10,428,882</u>	0.81%

Change in net assets before transfers and							
capital contribution	1,037,221	269,994	(21,393)	(11,009)	1,015,828	258,985	292.23%
Capital contribution	-	-	-	620	-	620	-100.00%
Transfers	<u>(20,000)</u>	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	1,017,221	269,994	(1,393)	(10,389)	1,015,828	259,605	291.30%
Net assets, beginning of year	<u>6,762,871</u>	<u>6,492,877</u>	<u>56,832</u>	<u>67,221</u>	<u>6,819,703</u>	<u>6,560,098</u>	3.96%
Net assets, end of year	<u>\$ 7,780,092</u>	<u>\$ 6,762,871</u>	<u>\$ 55,439</u>	<u>\$ 56,832</u>	<u>\$ 7,835,531</u>	<u>\$ 6,819,703</u>	14.90%

In fiscal 2011, property tax and unrestricted state grants account for approximately 74% of the revenue from governmental activities while charges for service and sales and operating grants account for 99% of the revenue from business type activities.

The District's total revenues were approximately \$11.5 million of which \$11.1 million was for governmental activities and approximately \$420,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% increase in revenues and a 1% increase in expenses. Operating grants, state grants and donations increased to fund the increase in expenditures. There were increases in expenses related to negotiated salary and benefits as well as increases in expenses funded by grants received by the District. However, additional increases in expenditures relating to upkeep of facilities, resulted in the overall increase in expenses.

Governmental Activities

Revenues for governmental activities were \$11,105,759 and expenses were \$10,068,538 for the year ended June 30, 2011. The District was able to remain within its budget due to planning and reviewing expenditures on a daily basis.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Instruction	\$ 6,472,903	\$6,131,424	5.6%	\$4,707,109	\$4,370,659	7.7%
Support services	2,529,374	2,633,669	-4.0%	2,523,940	2,591,774	-2.6%
Non-instructional programs	347	347	0.0%	(40,328)	347	-11721.9%
Other expenses	<u>1,065,914</u>	<u>1,218,445</u>	-12.5%	<u>680,869</u>	<u>841,214</u>	-19.1%
Total expenses	<u>\$10,068,538</u>	<u>\$9,983,885</u>	0.8%	<u>\$7,871,590</u>	<u>\$7,803,994</u>	0.9%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$369,505.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,827,443.
- The net cost of governmental activities was financed with \$5,051,770 in property and other taxes and \$3,779,920 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$423,190 representing a decrease of approximately 2% from the year while expenses totaled \$444,583, a decrease of less than 1% from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2011, the District did increase meal prices to cover additional costs related to the program. The District considers meal price increases only when deemed necessary to meet the obligations of the School Nutrition Fund. However, food and salary/benefit costs continue to increase. The District will review and determine if an increase in meal prices is necessary for the next year.

INDIVIDUAL FUND ANALYSIS

As previously noted, North Cedar Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,643,932, well above last year's ending fund balances of \$3,035,683. The primary reason for the increase in combined fund balances in fiscal 2011 is due to the building project being completed and administration keeping a daily watch on the financial health of the district.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors. This is due in part to the early retirement program and administration making changes in assignments to avoid replacing teachers if duties can be absorbed from within the district.
- The General Fund balance increased from \$1,413,936 to \$1,705,895, due in part to increased revenues, and the administration reviewing necessary purchases and keeping a constant watch on line item totals.
- The Capital Project - Statewide Sales, Services and Use Tax Fund balance increased from \$947,182 at June 30, 2010 to \$1,284,091 at June 30, 2011 due to the completion of the building project and funds being saved for future projects.

- The Debt Service Fund balance increased slightly from \$2,803 at June 30, 2010 to \$8,205 at June 30, 2011.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$56,832 at June 30, 2010 to \$55,439 at June 30, 2011, representing a decrease of approximately 2%. This is due primarily to increased costs in operating expenditures for food and related costs.

BUDGETARY HIGHLIGHTS

North Cedar Community School District did not amend its annual budget during the year ended June 30, 2011.

The District's revenues were \$190,853 less than budgeted revenues, a variance of approximately 2%. The most significant variance resulted from the District receiving less in state aid and grants than originally anticipated.

Total expenditures were \$3,667,986 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. District management is able to track spending by checking on a daily basis to keep expenditures under control.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$11,610,710 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 2% from the prior year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$406,358.

The original cost of the District's capital assets was \$17,332,139. Governmental funds account for \$17,157,986, with the remainder of \$174,153 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category, which increased by \$76,749. This increase resulted from several major projects such as the purchase of a sonicWALL, large-capacity school bus, middle school bell system, utility tractor and communication system.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010-</u>	<u>2010-2011</u>
Land	\$ 146,834	\$ 146,834	\$ -	\$ -	\$ 146,834	\$ 146,834	0.00%
Buildings and improvements	10,533,988	10,781,530	-	-	10,533,988	10,781,530	-2.30%
Improvements, other than buildings	129,196	52,447	-	-	129,196	52,447	146.34%
Furniture and equipment	<u>751,198</u>	<u>831,384</u>	<u>49,494</u>	<u>56,454</u>	<u>800,692</u>	<u>887,838</u>	-9.82%
Totals	<u>\$11,561,216</u>	<u>\$11,812,195</u>	<u>\$49,494</u>	<u>\$56,454</u>	<u>\$11,610,710</u>	<u>\$11,868,649</u>	-2.17%

Long-Term Debt

At June 30, 2011, the District had \$8,457,995 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 6% from last year (see Figure A-7). Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$12.7 million.

Figure A-7

	Outstanding Long-term Obligations		
	Total		Total
	District		Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
General obligation bonds	\$ 7,050,000	\$ 7,410,000	-4.86%
Revenue bonds	1,040,000	1,270,000	-18.11%
Termination benefits	318,900	252,300	26.40%
Net OPEB liability	<u>49,095</u>	<u>25,198</u>	94.84%
Total	<u>\$ 8,457,995</u>	<u>\$ 8,957,498</u>	-5.58%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Enrollment must remain stable or increase. District funding is driven by enrollment; therefore future enrollment stability is a critical element in maintaining a sound financial foundation. The District anticipates a decline in K-12 enrollment and a greater number of open-enrolled out students than open-enrolled in students.
- The District negotiated a new agreement with the North Cedar Education Association (NCEA) for fiscal 2011. Settlements in excess of "new money" or allowable growth in state funding for Certified as well as Classified staff will have an adverse effect on the District's General budget and related fund balance.
- The District has just completed construction projects at three sites. Due to increased construction costs, the District will need to allocate additional funds to complete the projects over several fiscal years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jean Esbaum, District Secretary/Treasurer and Business Manager, North Cedar Community School District, 400 Ball Street, Clarence, Iowa, 52216.

Basic Financial Statements

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental	Business Type		Component
	Activities	Activities	Total	Unit
Assets				Foundation
Cash and cash equivalents	\$ 3,653,705	\$ 6,431	\$ 3,660,136	\$ -
Investments with fiscal agent	440,729	-	440,729	-
Investments	-	-	-	348,429
Receivables				
Property tax				
Delinquent	46,643	-	46,643	-
Succeeding year	4,277,979	-	4,277,979	-
Accounts receivable	1,923	-	1,923	-
Income surtaxes	406,311	-	406,311	-
Due from other governments	538,287	-	538,287	-
Inventories	-	5,096	5,096	-
Non-depreciable capital assets	146,834	-	146,834	-
Capital assets, net of accumulated depreciation	11,414,382	49,494	11,463,876	-
Total assets	20,926,793	61,021	20,987,814	348,429
Liabilities				
Accounts payable	333,702	-	333,702	-
Salaries and benefits payable	30,930	-	30,930	-
Accrued interest payable	46,095	-	46,095	-
Deferred revenue				
Succeeding year property tax	4,277,979	-	4,277,979	-
Other	-	5,582	5,582	-
Long-term liabilities				
Portion due within one year				
General obligation bonds payable	380,000	-	380,000	-
Revenue bonds payable	240,000	-	240,000	-
Termination benefits payable	77,400	-	77,400	-
Portion due after one year				
General obligation bonds payable	6,670,000	-	6,670,000	-
Revenue bonds payable	800,000	-	800,000	-
Termination benefits payable	241,500	-	241,500	-
Net OPEB liability	49,095	-	49,095	-
Total liabilities	13,146,701	5,582	13,152,283	-
Net Assets				
Invested in capital assets, net of related debt	3,471,216	49,494	3,520,710	-
Restricted for				
Categorical funding	176,070	-	176,070	-
Physical plant and equipment	492,440	-	492,440	-
Student activities	122,128	-	122,128	-
School infrastructure	1,284,091	-	1,284,091	-
Assigned for scholarships	-	-	-	348,429
Unrestricted	2,234,147	5,945	2,240,092	-
Total net assets	\$ 7,780,092	\$ 55,439	\$ 7,835,531	\$ 348,429

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2011

Exhibit B

Functions/Programs Primary Government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	
Governmental activities					Governmental Business Type	Foundation
Instruction					Activities	Activities
Regular instruction	\$ 3,872,491	\$ 315,870	\$ 1,059,968	\$ -	\$ (2,496,653)	\$ (2,496,653)
Special instruction	1,526,576	-	370,328	-	(1,156,248)	(1,156,248)
Other instruction	1,073,836	12,960	6,668	-	(1,054,208)	(1,054,208)
	6,472,903	328,830	1,436,964	-	(4,707,109)	(4,707,109)
Support services						
Student	131,428	-	-	-	(131,428)	(131,428)
Instructional staff	77,591	-	-	-	(77,591)	(77,591)
Administration	922,620	-	-	-	(922,620)	(922,620)
Operation and maintenance of plant	912,640	-	-	-	(912,640)	(912,640)
Transportation	485,095	-	-	-	(485,095)	(485,095)
Central support	-	-	5,434	-	5,434	5,434
	2,529,374	-	5,434	-	(2,523,940)	(2,523,940)
Non-instructional programs	347	40,675	-	-	40,328	40,328
Other expenses						
Facilities acquisition	44,331	-	-	-	(44,331)	(44,331)
Long-term debt interest	347,676	-	-	-	(347,676)	(347,676)
AEA flowthrough	385,045	-	385,045	-	-	-
Depreciation (unallocated) *	288,862	-	-	-	(288,862)	(288,862)
	1,065,914	-	385,045	-	(680,869)	(680,869)
Total governmental activities	10,068,538	369,505	1,827,443	-	(7,871,590)	(7,871,590)

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

Functions/Programs (continued)	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest	Primary Government		
	Expenses	Charges for Services		Governmental Activities	Business Type Activities	
Primary Government (continued)						
Business type activities						
Non-instructional programs						
Food service operations	\$ 444,583	\$ 231,417	\$ 190,590	\$ -	\$ (22,576)	\$ (22,576)
Total primary government	<u>\$ 10,513,121</u>	<u>\$ 600,922</u>	<u>\$ 2,018,033</u>	<u>\$ -</u>	<u>(22,576)</u>	<u>(7,894,166)</u>
Component Unit						
Foundation	<u>\$ 21,044</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ (21,044)</u>
General Revenues						
Property tax levied for						
General purposes				3,510,690	-	3,510,690
Debt service				667,245	-	667,245
Capital outlay				256,214	-	256,214
Statewide sales, services and use tax				617,621	-	617,621
Unrestricted state grants				3,779,920	-	3,779,920
Contributions and donations				4,878	-	4,878
Unrestricted investment earnings				21,173	1,183	22,356
Miscellaneous				51,070	-	51,070
Transfers				(20,000)	20,000	-
Total general revenues and transfers	<u>8,888,811</u>			<u>8,888,811</u>	<u>21,183</u>	<u>8,909,994</u>
Change in net assets	<u>1,017,221</u>			<u>1,017,221</u>	<u>(1,393)</u>	<u>1,015,828</u>
Net assets, beginning of year	<u>6,762,871</u>			<u>6,762,871</u>	<u>56,832</u>	<u>6,819,703</u>
Net assets, end of year	<u>\$ 7,780,092</u>			<u>\$ 7,780,092</u>	<u>\$ 55,439</u>	<u>\$ 7,835,531</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2011

	General	Capital Projects Statewide Sales, Services and Use Tax	Debt Service	Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$1,940,546	\$ 579,588	\$ 454	\$ 662,990	\$3,183,578
Investments with fiscal agent	-	440,729	-	-	440,729
Receivables					
Property tax					
Delinquent	36,039	-	7,691	2,913	46,643
Succeeding year	3,304,849	-	668,903	304,227	4,277,979
Accounts receivable	1,915	8	-	-	1,923
Income surtax	284,418	-	-	121,893	406,311
Due from other governments	273,400	264,804	60	23	538,287
Total assets	<u>\$5,841,167</u>	<u>\$1,285,129</u>	<u>\$677,108</u>	<u>\$1,092,046</u>	<u>\$8,895,450</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 312,479	\$ 1,038	\$ -	\$ 20,185	\$ 333,702
Salaries and benefits payable	30,930	-	-	-	30,930
Deferred revenue					
Succeeding year property tax	3,304,849	-	668,903	304,227	4,277,979
Income surtax	284,418	-	-	121,893	406,311
Federal grants	202,596	-	-	-	202,596
Total liabilities	<u>4,135,272</u>	<u>1,038</u>	<u>668,903</u>	<u>446,305</u>	<u>5,251,518</u>
Fund balances					
Restricted for					
Categorical funding	176,070	-	-	-	176,070
School infrastructure	-	1,284,091	-	-	1,284,091
Debt service	-	-	8,205	-	8,205
Student activities	-	-	-	122,128	122,128
Management levy purposes	-	-	-	153,066	153,066
Physical plant and equipment	-	-	-	370,547	370,547
Unassigned	<u>1,529,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,529,825</u>
Total fund balances	<u>1,705,895</u>	<u>1,284,091</u>	<u>8,205</u>	<u>645,741</u>	<u>3,643,932</u>
Total liabilities and fund balances	<u>\$5,841,167</u>	<u>\$1,285,129</u>	<u>\$677,108</u>	<u>\$1,092,046</u>	<u>\$8,895,450</u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit D

Total fund balances of governmental funds	\$ 3,643,932
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**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	11,561,216
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Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	608,907
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(46,095)
--	----------

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	470,127
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Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,457,995)</u>
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Net assets of governmental activities	<u><u>\$ 7,780,092</u></u>
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NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

		Capital Projects Statewide	Debt	Nonmajor Governmental	
Revenues	<u>General</u>	<u>Sales, Services and Use Tax</u>	<u>Service</u>	<u>Funds</u>	<u>Total</u>
Local sources					
Local tax	\$3,379,524	\$ 617,621	\$ 667,245	\$371,517	\$5,035,907
Tuition	450,145	-	-	-	450,145
Other	115,636	554	1,408	186,561	304,159
Intermediate sources	2,100	-	-	-	2,100
State sources	4,860,959	-	-	-	4,860,959
Federal sources	290,348	-	-	-	290,348
Total revenues	<u>9,098,712</u>	<u>618,175</u>	<u>668,653</u>	<u>558,078</u>	<u>10,943,618</u>
Expenditures					
Current					
Instruction					
Regular	3,734,027	-	-	52,861	3,786,888
Special	1,519,769	-	-	-	1,519,769
Other	872,981	-	-	196,905	1,069,886
	<u>6,126,777</u>	<u>-</u>	<u>-</u>	<u>249,766</u>	<u>6,376,543</u>
Support services					
Student	130,986	-	-	-	130,986
Instructional staff	60,769	-	-	-	60,769
Administration	901,607	-	-	5,622	907,229
Operation and maintenance of plant	764,189	1,041	-	212,404	977,634
Transportation	417,380	-	-	24,902	442,282
	<u>2,274,931</u>	<u>1,041</u>	<u>-</u>	<u>242,928</u>	<u>2,518,900</u>
Other expenditures					
Facilities acquisition	-	-	-	91,405	91,405
Long-term debt					
Principal	-	-	590,000	-	590,000
Interest and fiscal charges	-	750	352,726	-	353,476
AEA flowthrough	385,045	-	-	-	385,045
	<u>385,045</u>	<u>750</u>	<u>942,726</u>	<u>91,405</u>	<u>1,419,926</u>
Total expenditures	<u>8,786,753</u>	<u>1,791</u>	<u>942,726</u>	<u>584,099</u>	<u>10,315,369</u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

	General	Capital Projects Statewide Sales, Services and Use Tax	Debt Service	Nonmajor Governmental Funds	Total
Excess (deficiency) of revenues over (under) expenditures	\$ 311,959	\$ 616,384	\$ (274,073)	\$ (26,021)	\$ 628,249
Other financing sources (uses)					
Interfund operating transfers in	-	-	279,475	-	279,475
Interfund operating transfers (out)	(20,000)	(279,475)	-	-	(299,475)
Total other financing sources (uses)	(20,000)	(279,475)	279,475	-	(20,000)
Net change in fund balances	291,959	336,909	5,402	(26,021)	608,249
Fund balance, beginning of year, as restated	1,413,936	947,182	2,803	671,762	3,035,683
Fund balance, end of year	\$1,705,895	\$1,284,091	\$ 8,205	\$645,741	\$3,643,932

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Exhibit F

Net change in fund balances - total governmental funds \$ 608,249

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 148,419	
Depreciation expense	<u>(399,398)</u>	(250,979)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	162,141
--	---------

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.	(7,493)
---	---------

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	590,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	(66,600)	
Other postemployment benefits	<u>(23,897)</u>	(90,497)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>5,800</u>
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Change in net assets of governmental activities	<u>\$ 1,017,221</u>
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NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2011

Exhibit G

	Business Type <u>Activity</u> Enterprise Fund	Governmental <u>Activity</u> Internal Service Fund
Assets		
Cash and cash equivalents	\$ 6,431	\$ 470,127
Inventories	5,096	-
Capital assets, net of accumulated depreciation	49,494	-
Total assets	<u>61,021</u>	<u>470,127</u>
Liabilities		
Deferred revenue	<u>5,582</u>	<u>-</u>
Net Assets		
Invested in capital assets	49,494	-
Unrestricted	5,945	470,127
Total net assets	<u>\$ 55,439</u>	<u>\$ 470,127</u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit H

	Business Type Activity <u>Enterprise Fund</u>	Governmental Activity <u>Internal Service Fund</u>
Operating revenue	Nonmajor School	Internal Service
Local sources	Nutrition	Fund
Charges for service	\$231,417	\$ -
Employee contributions	-	699,552
Total operating revenue	<u>231,417</u>	<u>699,552</u>
Operating expenses		
Support services		
Business administration		
Salaries	7,386	-
Benefits	3,649	-
Purchased services	3,958	325
Operation and maintenance of plant		
Purchased services	<u>2,749</u>	<u>-</u>
Total support services	<u>17,742</u>	<u>325</u>
Non-instructional programs		
Food service operations		
Salaries and benefits	157,179	-
Benefits	60,997	-
Supplies	201,705	-
Depreciation	6,960	-
Other enterprise		
Benefits	-	705,128
Miscellaneous	-	2,235
Total non-instructional programs	<u>426,841</u>	<u>707,363</u>
Total operating expenses	<u>444,583</u>	<u>707,688</u>
Operating (loss)	<u>(213,166)</u>	<u>(8,136)</u>
Non-operating revenues		
Interest income	1,183	643
State sources	3,981	-
Federal sources	<u>186,609</u>	<u>-</u>
Total non-operating revenues	<u>191,773</u>	<u>643</u>
Net (loss) before transfers	<u>(21,393)</u>	<u>(7,493)</u>
Transfers in	<u>20,000</u>	<u>-</u>
Net (loss)	<u>(1,393)</u>	<u>(7,493)</u>
Net assets, beginning of year	<u>56,832</u>	<u>477,620</u>
Net assets, end of year	<u>\$ 55,439</u>	<u>\$ 470,127</u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit I

	Business Type Activity <u>Enterprise Fund</u> Nonmajor School Nutrition	Governmental Activity <u>Internal Service Fund</u>
Cash flows from operating activities		
Cash received from sale of services	\$ 230,189	\$ -
Cash received from other operations	-	702,152
Cash payments to employees for services	(229,211)	(705,128)
Cash payments to suppliers for goods and services	<u>(180,703)</u>	<u>(2,560)</u>
Net cash (used in) operating activities	<u>(179,725)</u>	<u>(5,536)</u>
Cash flows from non-capital financing activities		
Transfers in from other funds	20,000	-
State grants received	3,981	-
Federal grants received	<u>159,107</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>183,088</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Interest on investments	<u>1,183</u>	<u>643</u>
Net increase (decrease) in cash and cash equivalents	4,546	(4,893)
Cash and cash equivalents, beginning of year	1,885	475,020
Cash and cash equivalents, end of year	<u>\$ 6,431</u>	<u>\$ 470,127</u>
Reconciliation of operating (loss) to net cash (used in) operating activities		
Operating (loss)	\$(213,166)	\$ (8,136)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation	6,960	-
Commodities used	27,502	-
Decrease in inventory	207	-
Decrease in due from other funds	-	2,600
(Decrease) in deferred revenue	<u>(1,228)</u>	<u>-</u>
Net cash (used in) operating activities	<u>\$(179,725)</u>	<u>\$ (5,536)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2011, the District received 27,502 of federal commodities.

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2011

Exhibit J

	Private Purpose <u>Trust</u> <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 136,979
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u><u>\$ 136,979</u></u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2011

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 10,752
Interest	<u>1,619</u>
Total additions	12,371
Deductions	
Non-instructional programs	
Scholarships	<u>3,450</u>
Change in net assets	8,921
Net assets, beginning of year	<u>128,058</u>
Net assets, end of year	<u><u>\$ 136,979</u></u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The North Cedar Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Mechanicsville, Stanwood, Clarence and Lowden, Iowa, and the agricultural territory in Cedar and Jones Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, North Cedar Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. North Cedar Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

These financial statements present the North Cedar Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The North Cedar Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's opinion, the Foundation financial statements have not been audited.

Jointly Governed Organizations

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales, services and use tax to be expended for school infrastructure purposes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports no major proprietary funds; however, it reports the following nonmajor proprietary funds.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District. Additionally, the District reports an Internal Service Fund which is used to account for the flex-benefit plan for District employees.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims, judgments and early retirement are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	\$ 2,500
Improvements other than buildings	\$ 2,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Intangibles	5-10 years
Furniture and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for hours worked by non-certified employees in June 2011, but not paid until July, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2011. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds, as well as property tax receivables and income surtaxes not collected within sixty days after year end. Deferred revenue in the enterprise funds consists of monies collected for lunches that have not yet been served as of June 30, 2011.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unearned revenue for monies collected for lunches that have not yet been served.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$492,440 for physical plant and equipment, \$122,128 for student activities and \$1,284,091 for school infrastructure.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had \$432,657 invested with Bankers Trust Company, which was invested in the Goldman Sachs Financial Square Treasury Obligations Fund. These investments are valued at fair market value. The District also had investments at June 30, 2011 in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,669,050 pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Credit Risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The investments in the Goldman Sachs Financial Square Treasury Obligations Fund were rated Aaa by Moody's Investor Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Goldman Sachs Financial Square Treasury Obligations Fund accounted for 100% of the District's total investments.

Component Unit Investments - The Foundation had investments in mutual funds as follows:

Mutual funds \$348,429

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	
	Statewide Sales, Service and Use Tax	\$ 279,475
Nonmajor Enterprise		
School Nutrition	General	<u>20,000</u>
		<u>\$ 299,475</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for principal and interest payments on debt. The transfer from the General Fund to the School Nutrition Fund was to reimburse for expenses.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

<u>Governmental activities</u>	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 146,834	\$ -	\$ -	\$ 146,834
Capital assets being depreciated:				
Buildings and improvements	14,057,601	-	-	14,057,601
Improvements other than buildings	403,124	85,765	-	488,889
Furniture and equipment	<u>2,402,008</u>	<u>62,654</u>	<u>-</u>	<u>2,464,662</u>
Total capital assets being depreciated	<u>16,862,733</u>	<u>148,419</u>	<u>-</u>	<u>17,011,152</u>
Less accumulated depreciation for:				
Buildings and improvements	3,276,071	247,542	-	3,523,613
Improvements other than buildings	350,677	9,016	-	359,693
Furniture and equipment	<u>1,570,624</u>	<u>142,840</u>	<u>-</u>	<u>1,713,464</u>
Total accumulated depreciation	<u>5,197,372</u>	<u>399,398</u>	<u>-</u>	<u>5,596,770</u>
Total capital assets being depreciated, net	<u>11,665,361</u>	<u>(250,979)</u>	<u>-</u>	<u>11,414,382</u>
Governmental activities capital assets, net	<u>\$ 11,812,195</u>	<u>\$ (250,979)</u>	<u>\$ -</u>	<u>\$ 11,561,216</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 174,153	\$ -	\$ -	\$ 174,153
Less accumulated depreciation	<u>117,699</u>	<u>6,960</u>	<u>-</u>	<u>124,659</u>
Business type activities capital assets, net	<u>\$ 56,454</u>	<u>\$ (6,960)</u>	<u>\$ -</u>	<u>\$ 49,494</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 634
Special	2,442
Other	877
Support services	
Instruction staff	16,654
Administration	12,608
Operation and maintenance of plant	10,153
Transportation	66,821
Non-instructional programs	<u>347</u>
	110,536
Unallocated	<u>288,862</u>
Total governmental activities depreciation expense	<u>\$ 399,398</u>

Business-type activities

Food services	<u>\$ 6,960</u>
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Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 7,410,000	\$ -	\$ 360,000	\$7,050,000	\$ 380,000
Revenue bonds	1,270,000	-	230,000	1,040,000	240,000
Termination benefits	252,300	120,000	53,400	318,900	77,400
Net OPEB liability	<u>25,198</u>	<u>23,897</u>	<u>-</u>	<u>49,095</u>	<u>-</u>
Totals	<u>\$ 8,957,498</u>	<u>\$143,897</u>	<u>\$ 643,400</u>	<u>\$8,457,995</u>	<u>\$ 697,400</u>

Interest costs incurred and charged to expense on all long-term debt was \$347,676 for the year ended June 30, 2011. During the year ended June 30, 2011, the District made principal payments on total long-term debt of \$590,000.

Termination Benefits

The District offers a voluntary early retirement plan to its certified employees. An employee is deemed to be eligible for this program when they have completed at least fifteen years of contract service as a full-time certificated employee with the North Cedar Community School District and will have attained at least fifty-six years of age on or before June 30 of the current fiscal year. An employee will be deemed to be in their first year of eligibility during the fiscal year in which they meet both longevity and age criteria for the first time.

The early retirement pay for each eligible full-time certified staff member, as defined by the Master Contract or individual contract, shall be calculated based on the current salary schedule, excluding any extra-curricular, Phase II and Phase III monies. An eligible employee, upon early retirement, shall receive an early retirement benefit representing eighty-one days' pay subject to a pro-ration formula.

Additionally, an eligible employee may receive additional per diem pay for unused/accumulated sick leave based on a pro-ration formula. This separation pay shall be made in three equal payments on July 15th of the three years following early retirement; one third in July of the retirement year, one third in July of the second year and one third in July of the third year.

At June 30, 2011 the District had obligations to thirteen former employees for a total of \$318,900.

General Obligation Bonds

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 1, 2005			
	Interest Rates	Principal	Interest	Total
2012	4.00%	\$ 380,000	\$ 288,402	\$ 668,402
2013	4.00%	395,000	273,202	668,202
2014	4.00%	410,000	257,402	667,402
2015	4.00%	430,000	241,002	671,002
2016	4.00%	450,000	223,802	673,802
2017-2021	4.0-4.10%	2,530,000	834,748	3,364,748
2022-2025	4.1-4.3%	2,455,000	266,612	2,721,612
Totals		<u>\$7,050,000</u>	<u>\$2,385,170</u>	<u>\$ 9,435,170</u>

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of July 1, 2007			
	Interest Rates	Principal	Interest	Total
2012	4.10%	\$ 240,000	\$ 39,205	\$ 279,205
2013	4.20%	255,000	28,930	283,930
2014	4.30%	265,000	17,877	282,877
2015	4.35%	<u>280,000</u>	<u>6,090</u>	<u>286,090</u>
Totals		<u>\$1,040,000</u>	<u>\$ 92,102</u>	<u>\$1,132,102</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,710,000 bonds issued July 1, 2007. The bonds were issued for the purpose of financing a portion of a school remodeling and construction project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 49% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,132,102 at June 30, 2011. For the current year, \$278,725 of principal and interest was paid on the bonds. Total statewide sales, services and use tax revenues were \$617,621 for the year ended June 30, 2011.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$171,000 of the proceeds from the issuance of the revenue bonds shall be deposited into a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in the Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.5%, 4.30% and 4.10 % of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$351,389, \$336,707 and \$315,231, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 128 active, of which 43 were excluded from the valuation, and 10 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 41,487
Interest on net OPEB obligation	630
Adjustment to annual required contribution	<u>(3,366)</u>
Annual OPEB cost	38,751
Contributions made	<u>(14,854)</u>
Increase in net OPEB obligation	23,897
Net OPEB obligation beginning of year	<u>25,198</u>
Net OPEB obligation end of year	<u>\$ 49,095</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$14,854 to the medical plan. Plan members eligible for benefits contributed nothing to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 38,804	35.1%	\$ 25,198
2011	38,751	38.3%	\$ 49,095

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$256,006, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$256,006. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.1 million and the ratio of UAAL to covered payroll was 5.1%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District has a self-funded health insurance plan for its employees. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$15,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three calendar years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$49,304 at October 31, 2008, the last date for which information is available. There was no liability for incurred and unrecorded claims reported in the plan at June 30, 2011.

In addition, the District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$385,045 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	
Gifted and Talented	\$ 75,856
Teacher salary supplement	47,136
Educator quality, professional development for model core curriculum	39,641
Educator quality, professional development	<u>13,437</u>
	<u>\$176,070</u>

Note 12. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue
	Physical Plant and Equipment <u>Levy</u>	Physical Plant and Equipment <u>Levy</u>
Balances June 30, 2010, as previously reported	\$ -	\$ 323,581
Change in fund type classification per implementation of GASB Statement No. 54	<u>323,581</u>	<u>(323,581)</u>
Balances July 1, 2010, as restated	<u>\$ 323,581</u>	<u>\$ -</u>

Note 13. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.
- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and government operators, requiring

governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

- GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual

amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The District’s management has not yet determined the effect these Statements will have on the District’s financial statements.

Required Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual All Governmental Funds and Enterprise Fund Required Supplementary Information For the Year Ended June 30, 2011

	Governmental Funds Actual	Enterprise Fund Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Revenues						
Local sources	\$ 5,790,211	\$ 232,600	\$ 6,022,811	\$ 5,873,755	\$ 5,873,755	\$ 149,056
Intermediate sources	2,100	-	2,100	5,000	5,000	(2,900)
State sources	4,860,959	3,981	4,864,940	5,286,906	5,286,906	(421,966)
Federal sources	290,348	186,609	476,957	392,000	392,000	84,957
Total revenues	<u>10,943,618</u>	<u>423,190</u>	<u>11,366,808</u>	<u>11,557,661</u>	<u>11,557,661</u>	<u>(190,853)</u>
Expenditures/Expenses						
Instruction	6,376,543	-	6,376,543	7,507,311	7,507,311	1,130,768
Support services	2,518,900	17,742	2,536,642	4,728,817	4,728,817	2,192,175
Non-instructional programs	-	426,841	426,841	559,681	559,681	132,840
Other expenditures	1,419,926	-	1,419,926	1,632,129	1,632,129	212,203
Total expenditures/expenses	<u>10,315,369</u>	<u>444,583</u>	<u>10,759,952</u>	<u>14,427,938</u>	<u>14,427,938</u>	<u>3,667,986</u>
Excess (deficiency) of revenues						
over (under) expenditures/expenses	628,249	(21,393)	606,856	(2,870,277)	(2,870,277)	3,477,133
Net other financing sources (uses)	<u>(20,000)</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) in revenues and other financing						
sources over (under) expenditures/expenses and						
other financing (uses)	608,249	(1,393)	606,856	(2,870,277)	(2,870,277)	3,477,133
Balance, beginning of year	<u>3,035,683</u>	<u>56,832</u>	<u>3,092,515</u>	<u>2,439,648</u>	<u>2,439,648</u>	<u>652,867</u>
Balance, end of year	<u>\$ 3,643,932</u>	<u>\$ 55,439</u>	<u>\$ 3,699,371</u>	<u>\$ (430,629)</u>	<u>\$ (430,629)</u>	<u>\$ 4,130,000</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend its certified budget.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 282,796	\$282,796	0.0%	\$ 5,111,059	5.5%
2011	July 1, 2010	-	256,006	256,006	0.0%	5,058,675	5.1%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>	
			Physical Plant and Equipment	
	<u>Student Activity</u>	<u>Management Levy</u>	<u>Levy</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 122,128	\$ 151,659	\$ 389,203	\$ 662,990
Receivables				
Property tax				
Delinquent	-	1,396	1,517	2,913
Succeeding year	-	160,001	144,226	304,227
Income surtaxes	-	-	121,893	121,893
Due from other governments	-	11	12	23
Total assets	<u>\$ 122,128</u>	<u>\$ 313,067</u>	<u>\$ 656,851</u>	<u>\$ 1,092,046</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 20,185	\$ 20,185
Deferred revenue				
Succeeding year property tax	-	160,001	144,226	304,227
Income surtaxes	-	-	121,893	121,893
Total liabilities	<u>-</u>	<u>160,001</u>	<u>286,304</u>	<u>446,305</u>
Fund balances				
Restricted for				
Student activities	122,128	-	-	122,128
Management levy purposes	-	153,066	-	153,066
Physical plant and equipment	-	-	370,547	370,547
Total fund balances	<u>122,128</u>	<u>153,066</u>	<u>370,547</u>	<u>645,741</u>
Total liabilities and fund balances	<u>\$ 122,128</u>	<u>\$ 313,067</u>	<u>\$ 656,851</u>	<u>\$ 1,092,046</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

Schedule 2

	<u>Special Revenue</u>		<u>Capital Projects</u>	
			<u>Physical Plant and Equipment</u>	<u>Total</u>
Revenues	<u>Student Activity</u>	<u>Management Levy</u>	<u>Levy</u>	
Local sources				
Local taxes	\$ -	\$120,063	\$251,454	\$371,517
Other	<u>186,287</u>	<u>32</u>	<u>242</u>	<u>186,561</u>
Total revenues	<u>186,287</u>	<u>120,095</u>	<u>251,696</u>	<u>558,078</u>
Expenditures				
Current				
Instruction				
Regular	-	52,861	-	52,861
Other	<u>196,905</u>	<u>-</u>	<u>-</u>	<u>196,905</u>
Total instruction	<u>196,905</u>	<u>52,861</u>	<u>-</u>	<u>249,766</u>
Support services				
Administration	-	5,622	-	5,622
Operation and maintenance of plant	-	123,981	88,423	212,404
Transportation	<u>-</u>	<u>-</u>	<u>24,902</u>	<u>24,902</u>
Total support services	<u>-</u>	<u>129,603</u>	<u>113,325</u>	<u>242,928</u>
Other expenditures				
Facilities acquisition	<u>-</u>	<u>-</u>	<u>91,405</u>	<u>91,405</u>
Total expenditures	<u>196,905</u>	<u>182,464</u>	<u>204,730</u>	<u>584,099</u>
Net change in fund balances	(10,618)	(62,369)	46,966	(26,021)
Fund balances, beginning of year, as restated	<u>132,746</u>	<u>215,435</u>	<u>323,581</u>	<u>671,762</u>
Fund balances, end of year	<u>\$122,128</u>	<u>\$153,066</u>	<u>\$370,547</u>	<u>\$645,741</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2011

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
District-wide				
Interest	\$ 1,066	\$ 4,988	\$ 680	\$ 5,374
Elementary				
Student productions	14,085	2,780	4,086	12,779
Pop sales	4,342	2,060	2,898	3,504
Art club	600	-	-	600
Publications	-	1,599	1,477	122
Middle school				
Publications	8,084	4,012	7,336	4,760
Pop sales	2,242	3,843	3,919	2,166
Student clubs	6,683	4,681	4,629	6,735
Cheerleading	640	-	200	440
Student council	1,333	-	333	1,000
Trail blazers	3,656	1,408	2,794	2,270
EPA grant	1,311	-	-	1,311
Drama Speech	455	177	77	555
High school				
Student clubs	160	-	-	160
Drama/speech	1,339	1,854	2,407	786
Vocal	8,157	4,064	4,232	7,989
Instrumental	23	2,434	2,196	261
Cross country	654	-	377	277
Basketball	7,106	13,792	16,362	4,536
Rigby athletic fund	6,327	14,758	20,853	232
Volleyball	635	6,188	4,058	2,765
Football	9,164	24,759	24,807	9,116
Baseball/softball	1,965	9,246	6,159	5,052
Track	174	3,270	3,382	62
Golf	173	2,385	2,346	212
Wrestling	2,852	3,750	4,478	2,124
Cheerleading	929	3,356	4,136	149
FFA	1,202	-	-	1,202
National Honor Society	241	1,815	983	1,073
Peer counselors	88	-	-	88

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2011

Schedule 3

Account	Balance, End of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
High school (continued)				
Student Productions	\$ -	\$ 171	\$ -	\$ 171
Publications	9,657	5,095	10,973	3,779
Student council	625	8,651	5,028	4,248
Alumni	3,898	200	-	4,098
Music Trip	4	40,485	39,940	549
Canteen	1,887	-	-	1,887
Pop sales	5,211	2,377	2,736	4,852
Athletic pop	1,733	964	2,346	351
Math club	520	125	100	545
Class of				
2010	927	-	927	-
2011	3,194	357	1,661	1,890
2012	3,753	5,337	4,490	4,600
2013	2,391	1,270	-	3,661
2014	3,136	1,350	182	4,304
2015	1,288	-	-	1,288
2016	1,549	-	-	1,549
2017	856	-	-	856
Business club	5,182	1,878	2,270	4,790
Spanish club	1,249	808	1,047	1,010
Totals	<u>\$ 132,746</u>	<u>\$ 186,287</u>	<u>\$ 196,905</u>	<u>\$ 122,128</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Eight Years

Schedule 4

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues								
Local sources								
Local tax	\$ 5,035,907	\$ 4,791,634	\$ 4,603,433	\$ 4,658,388	\$ 4,143,199	\$3,401,906	\$3,106,785	\$2,730,841
Tuition	450,145	230,221	265,431	387,240	316,302	244,152	194,874	175,749
Other	304,159	251,631	299,801	402,379	622,830	567,369	184,044	193,447
Intermediate sources	2,100	1	5,000	3,600	-	-	-	-
State sources	4,860,959	4,159,271	4,921,920	4,608,140	4,470,751	4,325,048	3,946,757	3,673,241
Federal sources	290,348	829,767	175,112	177,087	202,397	203,813	187,672	301,235
Total revenues	<u>\$10,943,618</u>	<u>\$10,262,525</u>	<u>\$10,270,697</u>	<u>\$10,236,834</u>	<u>\$ 9,755,479</u>	<u>\$8,742,288</u>	<u>\$7,620,132</u>	<u>\$7,074,513</u>
Expenditures								
Current								
Instruction								
Regular	\$ 3,786,888	\$ 3,590,035	\$ 3,812,771	\$ 3,744,165	\$ 3,429,668	\$3,173,137	\$3,184,214	\$3,062,973
Special	1,519,769	1,473,976	1,120,654	1,259,738	1,181,217	1,089,512	962,134	1,238,792
Other	1,069,886	1,067,654	1,123,930	771,955	839,603	799,141	885,192	544,278
Support services								
Student	130,986	153,834	156,380	158,852	141,787	138,542	132,330	131,344
Instructional staff	60,769	45,514	51,143	70,706	84,487	94,777	58,408	48,312
Administration	907,229	958,656	933,945	852,488	814,706	804,765	734,989	607,643
Operation and maintenance of plant	977,634	964,771	935,197	835,103	722,218	657,080	601,210	717,959
Transportation	442,282	465,283	423,014	392,216	376,169	345,569	301,780	250,476
Central support	-	-	-	-	-	-	-	96,916
Non-instructional programs	-	-	530	-	-	-	5,471	-
Other expenditures								
Facilities acquisition	91,405	210,494	331,730	3,428,718	8,058,800	1,145,123	131,472	766
Long-term debt								
Principal	590,000	570,000	545,000	315,000	305,000	285,000	-	-
Interest and other charges	353,476	375,577	398,327	413,259	355,003	365,940	-	-
AEA flowthrough	385,045	377,231	339,105	316,671	310,823	294,949	279,970	276,820
Total expenditures	<u>\$10,315,369</u>	<u>\$10,253,025</u>	<u>\$10,171,726</u>	<u>\$12,558,871</u>	<u>\$16,619,481</u>	<u>\$9,193,535</u>	<u>\$7,277,170</u>	<u>\$6,976,279</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Cedar Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 20, 2012. I did not issue an opinion on the North Cedar Community School District Foundation, which is included in the District's financial statements as a discretely presented component unit, because I was not engaged to and did not audit the Foundation. Except as discussed in the preceding sentence, I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Cedar Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of North Cedar Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of North Cedar Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness

is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as A, B and C to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Cedar Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

North Cedar Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit North Cedar Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of North Cedar Community School District and other parties to whom North Cedar Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the North Cedar Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 20, 2012

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGNIFICANT DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performed the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

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Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

- C. Signature Pre-printed on Checks - I noted that the District began printing checks bearing pre-printed signatures of the Board President and Board Secretary. Since the Board Secretary enters the check information into the computer system and is authorized to print the checks, this procedure negates the internal control developed by the requirement for checks to bear dual signatures.

Recommendation - I recommend that the use of the pre-printed signatures be discontinued or that procedures be altered so that the involvement of two individuals is required to issue a check. For instance, one individual could be authorized to enter and prepare the check in the accounting system and another individual be authorized to print the check.

Response - We will investigate alternatives to current procedures to provide adequate controls over the issuance of checks.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.

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5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval, which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

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Beginning balance		\$ 947,182
Revenues		
Statewide sales and services tax revenue	\$ 617,621	
Other local revenues	<u>554</u>	618,175
Expenditures/transfers out		
School infrastructure		
Equipment	1,791	
Debt service for school infrastructure		
Revenue debt	<u>279,475</u>	<u>281,266</u>
Ending balance		<u>\$ 1,284,091</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2011

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant